

Message Text

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PAGE 01 BAGHDA 00036 081144Z
ACTION NEA-10

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C O N F I D E N T I A L BAGHDAD 0036

E.O. 11652: GDS
TAGS: CASC, BGEN, IZ
SUBJECT: DEFAULT OF U.S. COMPANY CONSTRUCTING BASRA SEWERAGE
PROJECT

1. SUMMARY. PRJECT DIRECTOR FOR STARCO, WHICH HAS
33,000,000 DOLLAR CONTRACT TO CONSTRUCT BASRA SEWERAGE
SYSTEM, HAS RECIVED INSTRUCTIONS TO SHUT DOWN OPERATIONS
FROM STARCO'S BONDERS, TRIAD. HE PLANS TO DELAY NOTIFY
ING THE IRAQI GOVERNMENT UNTIL HE CAN EVACUATE AT LEAST
THE DEPENDENTS OF HIS AMERICAN EMPLOYEES. END SUMMARY.

2. WELFARE OF AMCITS. MR. GALE HAROLD, PROJECT
DIRECTOR FOR STARCO IN BASRA, TOLD USINT OFFICERS ON
JANUARY 4 THAT HE HAD JUST RECEIVED A MESSAGE FROM
TRIAD, THE BONDING COMPANY FOR STARCO, ORDERING HIM TO
CLOSE DOWN THE PROAJECT. HAROLD SAID THAT HE PLANS TO
DELAY NOTIFYING IRAQI SEWERAGE BOARD UNTIL ABOUT
JANUARY 12 TO ALLOW TIME FOR THE 8-10 DEPENDENTS OF
STARCO'S U.S. EMPLOYESS TO LEAVE BASRA. HE BELIEVES
THAT HE AND STARCO'S ACCOUNTANT MAY BE DENIED EXIT
PERMITS BUT THE COMPANY'S OTHER U.S. EMPLOYEES WILL BE
ALLOWED TO LEAVE IRAQ.

3. BACKGROUND TO PROBLEM. ROY COBLE, PRESIDENT, CARD
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PAGE 02 BAGHDA 00036 081144Z

CONSTRUCTION CO., 1724 SOUTH SANTA FE STREET, SANTA
ANA, CALIFORNIA 92705, FORMED STARCO AS A JOINT VENTURE
WITH ANOTHER AMERICAN FIRM VTN (ADDRESS UNKNOWN BUT
APPARENTLY ON FORTUNE 500 LIST) TO BID ON THE BASRA
SEWERAGE PROJECT. GOI AWARDED STARCO 33,000,000 DOLLAR
CONTRACT IN MID-1975, AND IRAQI SEWERAGE BOARD ADVANCED
APPROXIMATELY 7,000,000 DOLLARS FOR THE PURCHASE OF

EQUIPMENT. TRIAD, A SAUDI COMPANY OWNED BY ADNAN KASHOGI, PROVIDED THE BOND FOR THE ADVANCE. IN OCTOBER 1976 COBLE ASKED HAROLD TO TAKE OVER THE PROJECT SAYING IT HAD TECHNICAL PROBLEMS; HOWEVER, ON ARRIVAL IN IRAQ, HAROLD FOUND THAT STARCO HAD VIRTUALLY NO FINANCIAL RECORDS, THAT THE COMPANY HAD MORE THAN ONE HUNDRED LAW SUITS AGAINST IF FOR ILLEGAL HIRING AND FIRING PRACTICES AND FOR ILLEGAL DESTRUCTION OF PROPERTY, AND THAT ITS EQUIPMENT WAS "JUNK" WORTH ONLY ABOUT ONE-FOURTH OF THE 2,000,000 DOLLARS IT COST.

4. AFTER HIS INITIAL SURVEY OF THE SITUATION, HAROLD CONTACTED TRIAD, WHICH HAS SUBSEQUENTLY TAKEN OVER THE MANAGEMENT OF STARCO. TRIAD BELIEVES THAT IT STANDS TO LOSE 9,000,000 TO 10,000,000 DOLLARS, INCLUDING THE 7,000,000 DOLLARS BOND AS WELL AS CASH ADVANCED TO MEET STARCO'S OPERATING EXPENSES IN THE PAST FEW MONTHS. HAROLD BELIEVES THAT TRIAD JUDGES THIS LOSS PREFERABLE TO THE ESTIMATED 30,000,000 DOLLARS OR MORE IT COULD LOSE IF IT FINANCED THE COMPLETION OF THE PROJECT, NOW ESTIMATED TO COST AT LEAST 68,000,000 DOLLARS.

5. TRIAD HAS ATTEMPTED TO RENEGOTIATE THE CONTRACT BUT THE SEWERAGE BOARD HAS REFUSED. THERE IS SOME CHANCE THAT THE SEWERAGE BOARD MAY RECONSIDER ONCE IT REALIZES THE ALTERNATIVE IS STARCO'S CLOSING DOWN.

6. HAROLD BELIEVES THAT GOI MAY EVENTUALLY TRY TO TAKE LEGAL ACTION IN THE U.S. AGAINST CARD CONSTRUCTION CO.
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PAGE 03 BAGHDA 00036 081144Z

AND VTN FOR BREACH OF CONTRACT, FRAUD, CONSPIRACY AND EMBEZZLEMENT. HAROLD ESTIMATES AS MUCH AS 5,000,000 DOLLARS IS PRESENTLY UNACCOUNTED FOR.

7. COMMENT. WE ARE KEEPING IN CLOSE TOUCH WITH HAROLD CONCERNING THE WELFARE AND WHEREABOUTS OF STARCO'S AMCIT EMPLOYEES AND THEIR DEPENDENTS, AND SHARE HIS JUDGMENT THAT NO ONE IS LIKELY TO BE DETAINED ALTHOUGH HE AND STARCO'S ACCOUNTANT WILL LIKELY BE DENIED EXIT VISAS.

8. IN ADDITION TO THE INTERNATIONAL DISC CASE, STARCO IS THE SECOND U.S. COMPANY IN RECENT WEEKS TO HAVE SERIOUS PROBLEMS IN IRAQ. ALTHOUGH IT IS TOO EARLY TO GIVE A FULL ASSESSMENT OF THE IMPLICATIONS THESE TWO CASES MAY HAVE FOR THE U.S. COMMERCIAL REPUTATION IN IRAQ, OUR IMPRESSION IS THAT THE IRAQIS ARE LEARNING THAT IT IS NECESSARY TO LOOK CAREFULLY AT A FIRM'S FINANCIAL STANDING, REPUTATION, AND EXPERIENCE BEFORE

AWARDING A CONTRACT. END COMMENT.
WILEY

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